

8 June 2011

## Leisure: Punch Taverns (PUB): 70p Q3 trading update 12w to 28 May 2011

- Punch Taverns has this morning updated on Q3 trading, being the 12w period to 28 May 2011, saying that the group has made 'progress in all areas of the business'
- There has been 'strong sales growth in Spirit' and 'further improvement in Punch'; managed LfL sales are +7.3% for the 12w (+5.7% over 40w); leased LfL net income is down 0.7% in the 12w and -3.9% over 40w:

<i>Period</i>	<i>Leased (LfL EBITDA/pub) %</i>	<i>Managed (LfL sales/pub) %</i>
FY 07/08	-3.4	-3.3
H1 FY 08/09	-11.3	-2.3
H2 FY 08/09		-0.6
Full year 08/09	-11.0	-1.5
H1 (28w) to 6.3.10	-11.0	-3.4
FY to 21 Aug 10	c-11	-2.0
First 16w of 2010/11	-8.7	+2.2
Q2 2010/11	-6.1	+8.6
H1 2010/11	-7.0	+4.9
Q3 (12w to 28 May 11)	-0.7	+7.3
40w to 28 May 11	-3.9	+5.7

Source: Punch Taverns

- **Punch:** The group's leased units have slowed their rate of net income decline once more and average income per pub (post disposals) is up by 1.3%.
- The field teams for the core (2,956 pubs) and the turnaround (2,182 pubs) divisions have been reorganized
- **Spirit:** Managed pubs, though 'good weather undoubtedly helped trading', have performed strongly and uninvested LfL sales rose by 3.5%
- The 552 leased pubs within Spirit saw net income fall by 0.7% and some are in the process of being converted to managed units
- **Demerger:** This should be completed by end-summer; Roddy Murray, announced as CFO designate of Spirit in May has 'decided not to take up the role' and Russell Margerrison is now Interim FD
- Overall, the group is 'pleased' with its performance and, 'despite the challenging UK consumer environment (it is) on track to meet (its) full year expectations'

**Langcap view:** Trading has continued to improve but the demerger remains centre stage. An admittedly weather-assisted +7.3% from Spirit is impressive and better than most of the peer group and leased profits, though still falling, are now declining at their slowest rate for around four years. Progress towards demerger is said to be good and the group will be questioned on its management appointments at its 9am conference call. The hope remains that the demerger will remove the possible negative valuation attaching to the group's leased pubs (though at the cost of half of the PLC's cash and its holding in Matthew Clark) but this means that current earnings forecasts (for the record, around £125m and 14p EPS both this year and next) mean little. Despite current good trading, we remain of the view that the outlook for Punch is too uncertain to make it a potential core investment investment for non-holders.

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